

VZCZCXYZ0006
RR RUEHWEB

DE RUEHMD #0757/01 1920918
ZNY CCCCC ZZH
R 100918Z JUL 08
FM AMEMBASSY MADRID
TO RUEATRS/DEPT OF TREASURY WASHDC
INFO RUEHC/SECSTATE WASHDC 5063

C O N F I D E N T I A L MADRID 000757

SIPDIS

TREAS FOR (DFERNANDEZ)

E.O. 12958: DECL: 07/07/2018
TAGS: [ECON](#) [EFIN](#) [EINVETC](#) [ETTC](#) [ETRD](#) [KTFN](#) [PREL](#) [PARM](#)
PTERS, SP
SUBJECT: TREASURY UNDER SECRETARY LEVEY SCENESETTER

Classified By: Charge d'Affaires, Hugo Llorens. Reasons: 1.5 (b) and (d)

¶1. (SBU) Summary: Embassy Madrid warmly welcomes your visit. Your presence provides an excellent opportunity to reinforce our message on Iran financial sanctions with both government and private sector representatives. (Note: Your schedule has been sent via e-mail to staff.) You will also have an opportunity to discuss terrorism finance matters with Spanish officials. End Summary.

IRAN FINANCIAL SANCTIONS

¶2. (C) Perhaps one of the most important things you can do during your calls is to stress that pressure to isolate Iran economically is likely to increase. While the Spanish government agrees with the U.S. objective of preventing Iran from building a nuclear weapon, the Spaniards are more comfortable with the carrot and engagement side of the relationship with Iran. This is why it is going to take hard work to secure Spanish support for the ratcheting up of sanctions, but if additional sanctions are approved by the UN and/or the EU, Spain will implement those sanctions.

¶3. (C) Spanish trade with Iran is not large. In 2007, Spain exported USD 693 million to Iran (0.24 percent of Spanish exports to the world) and imported USD 2.4 billion from Iran (0.55 percent of Spanish imports from the world), mostly petroleum products. There are no Spanish data on Spanish investments in Iran in 2006 or 2007. There was no registered Iranian investment in Spain in 2006 or 2007 either. The other big EU economies exported considerably more to Iran. In 2007, France exported USD 2 billion, the UK USD 801 million, Italy USD 2.5 billion, and Germany almost USD 5 billion. Spain's base position is that it implements UNSCRs 1737 and 1747, and we have no reason to disbelieve that it does so. With respect to UNSCR 1803, there is reporting from Brussels indicating that Spain moved slowly with respect to approving the EU's so-called autonomous designation list, but ultimately Spain approved.

¶4. (C) Spain will likely support EU recommendations with one important exception: Spanish officials have told us that they will not accept restrictions on investment in the oil & gas sector. This is somewhat ironic because Repsol has decided not to pursue the development of the South Pars gas field's block 13, although Repsol (and Shell) have not ruled out the prospect of working on latter phases of the project. Ambassador Aguirre has discussed Iran on several times with Repsol CEO Antonio Brufau. Your meeting with Brufau is an opportunity to thank him for not pursuing the South Pars deal, and to encourage the company to continue to desist from investing in Iran's oil and gas sector.

¶5. (C) Deputy Treasury Secretary Kimmitt and Ambassador

Aguirre have talked directly to Spanish banks about being very careful about their activities in Iran. EconCouns talked to Banco Sabadell management as well about its Iran-related activity. Our sense is that Spanish banks are, in fact, monitoring their activities carefully. Ministry of Industry, Tourism and Trade Secretary of State Silvia Iranzo, chairs an inter-ministerial committee looking into possible dual-use exports to Iran. We think that Spain analyzes possible dual-use issues carefully. With respect to export credit policy, Ambassador Aguirre and EconCouns have talked about Iran with Spanish officials. Spain takes the position that Spanish policy is set in the OECD's export credit committee. Whatever Spain does with respect to export credits is likely to be coordinated with the EU. The Spanish government is aware that in addition to talking to the government, we also talk directly to private sector actors about Iran.

TERROR FINANCE

¶16. (U) The GOS is efficient in imposing freezes and sanctions related to UN and EU designations but does not implement E.O. 13224 designations. The GOS has the authority to do so under Law 12/2003, but chooses instead to apply standard judicial procedures when dealing with non-UN or EU designated entities. Nonetheless, the GOS actively complies with our requests to investigate designated entities and is very efficient and discreet in conducting searches for funds from individuals and organizations listed in pre-notifications. In recent years, no such related funds have been found in Spanish accounts.

¶17. (U) SEPBLAC is Spain's FIU with a primary mission to receive, analyze, and disseminate suspicious and unusual transaction reports. SEPBLAC works in close coordination with the Directorate General of the Ministry of Economy and Finance (MEF), the entity with the authority to freeze assets and impose sanctions. SEPBLAC and the Directorate General are overseen by an inter-ministerial policy committee referred to as the Commission for the Prevention of Money Laundering and Monetary Offenses (CPBCIM) chaired by Second Vice President and Secretary of Economy Pedro Solbes.

¶18. (U) As an organization, SEPBLAC has grown by almost 50 percent in the past year to about 60 employees. Included in its ranks are members of the Guardia Civil, National Police, and Spanish Customs who cooperate with each other and supplement the information provided by reporting parties. Press reports indicate that the number of Suspicious Activity Reports filed by banks has increased substantially in recent years.

¶19. (C) We have scheduled an appointment with SEPBLAC for you. The reason is that if you find it opportune, we recommend you ask re: the status of a reported SEPBLAC investigation into Barakat Yarkas's possibly financing terror finance activities from his jail cell. (Note: Yarkas was convicted for membership of a terrorist organization and for conspiring to commit terrorist acts. He was suspected of being involved with individuals linked to the September 11, 2001 attack.) On April 28, Spain's leading daily, El Pais, published a story alleging that Yarkas was financing terrorist groups from his jail cell, and that there was an outstanding judicial investigation against Yarkas involving a new terrorism finance charge(s) against him. You may wish to ask SEPBLAC whether there is, in fact, an ongoing investigation into Yarkas's possible activities. We have not been able to confirm whether there is an investigation through other channels. (Note: The National Security Council has been interested in designating Barakat Yarkas for several years, and we have urged the Spanish government to do so. For reasons still not entirely clear to us, the Spanish government has desisted from designating Yarkas.)

DOUBLE TAXATION TREATY

¶10. (U) We are providing the following information for you as background should the issue arise in connection with your American Chamber of Commerce (AmCham) lunch. The Chamber is seeking to convince the GOS to amend the 1990 double taxation treaty between the U.S. and Spain. The biggest change would allow U.S. corporations that sell stock in their subsidiaries in Spain for the purpose of corporate reorganizations to be taxed on their capital gains in the U.S., rather than at the Spanish 25 percent rate. Procter & Gamble, IBM, and GM are particularly interested in this change. The U.S. Treasury Department's Office of International Tax Counsel is, in principle, willing to renegotiate the treaty but only if the Spanish government indicates strong interest and if American firms lobby Treasury through the National Foreign Trade Council and the Tax Executive Institute. With respect to the latter, we have encouraged AmCham to have their members lobby through these organizations, but this has not taken place yet. The Spanish government is aware of the AmCham's interest in amending the treaty, but so far our sense is that not enough business interest has been demonstrated to convince the Spanish government to pursue this matter. The AmCham is currently organizing a campaign to get major CEOs to write the government about this topic.

Political Update

¶11. (SBU) The general elections in March 2008 were a hard fought affair that saw President Zapatero's Socialist party(PSOE) defeat Mariano Rajoy's Popular Party (PP). The PSOE, which needed 176 seats in the 350-seat Congress to gain an absolute majority, won 169 seats or about 44 percent of the vote. The Popular Party won about 40 percent of the vote, which translated into 155 seats. Smaller regional parties from Catalonia, Galicia, and the Basque Region all received enough votes to gain congressional representation but lost seats to the two main political parties, the PSOE and PP. Voter turnout nationwide was over 75 percent. The slowing Spanish economy, the terrorist threat from both the Basque terrorist group ETA and Islamic extremist groups, regional autonomy, and immigration were all major topics during the election. Foreign affairs did not play a major role in the campaign, but the PSOE reminded voters that it removed Spain's troops from an unpopular war in Iraq.

¶12. (SBU) Since winning reelection, Zapatero has named a new government, created new ministries and combined others. Zapatero's new cabinet notably has more female ministers (9)than male (8), including Spain's first female Minister of Defense, Carme Chacon. Two new ministries have been added: The Ministry of Equality and the Ministry of Science and Technology. The Ministry of Agriculture has taken on the additional responsibility of Marine Affairs and has been combined with the Ministry of the Environment. The GOS' First Vice President for the Presidency, Second Vice President for Economy and Finance, and Ministers of Foreign Affairs and Interior remain the same.

Economic Update

¶13. (U) Spain has had one of Europe's fastest-growing economies over the last decade. It has the world's eighth largest economy and is the world's second largest tourism destination and eighth auto manufacturer. Its GDP per capita is expected to pass Italy's in 2010. The next year or two will be more difficult. A housing boom that spurred growth for several years ended abruptly in 2007. Construction has slowed dramatically, and unemployment has risen to almost 10 percent. Inflation is higher than the EU average, which hurts competitiveness.

¶14. (U) U.S. investment has long been important to the Spanish economy (more so than bilateral trade), and U.S.

firms employ over 220,000 Spaniards. The growth of Spanish multinationals and the strong Euro have led to a surge of Spanish investment in the U.S. in the last few years. In 2007, Spain was the fourth largest foreign investor in the U.S., with particular emphasis in banking, toll road construction, and renewable energy. Spanish firms now own wind farms in at least 14 U.S. states, as well as solar power and biofuels plants.

Diplomatic Cooperation and Security

¶15. (SBU) U.S.-Spain relations were seriously damaged by President Zapatero's decision soon after his election in 2004 to abruptly withdraw Spanish forces from Iraq. However, over the last several years, both countries have made a concerted and successful effort to rebuild the relationship based on strong mutual interests in counter-terrorism, fighting narcotics trafficking and organized crime, and rapidly expanding economic ties. The real bilateral story is found in novel initiatives such as the HSPD-6 agreement we signed last September to facilitate the sharing of information between our national counter-terrorism authorities. Following the March 11, 2004 train bombings, Spain remains a target of Islamic extremists. Al-Qaeda leaders often call for the recapture of the medieval "Al Andalus," and the recent uncovering of a cell allegedly sympathetic to Al-Qaeda and operating out of Barcelona has shown the Spanish that this threat is not an idle one.

¶16. (SBU) Spain is no stranger to terrorism, having fought the domestic Basque terrorist group ETA for almost 40 years. Spanish political leaders are currently showing a united face, as - for the first time in several years, representatives of all political parties in the Spanish Congress issued a joint statement on March 15 announcing that all would work together to defeat ETA. Interior Minister Rubalcaba said in late March that "we are entering a long cycle of violence" with ETA and, according to Spanish media, the Spanish National Intelligence Center (CNI) has informed the government that ETA has no plans to negotiate for at least the next 18 months. The Basque terrorist group has been active in recent months, detonating explosives on several occasions, including one that resulted in the death of a Spanish Civil Guard Officer on May 14. ETA also assassinated a former PSOE city councilman on March 7 (two days before national elections), and two Spanish Civil Guard officers in France in December 2007. Spanish security forces are concerned that ETA has established new bomb manufacturing centers and techniques that will enable the organization to launch more attacks.

¶17. (SBU) Narcotics trafficking is another area of common concern and excellent cooperation. Spanish authorities acknowledge that Andean cocaine is a serious problem here, and Colombian trafficking organizations are active in Spain. Money laundering is another serious issue. We are eager to find ways to increase bilateral cooperation and to encourage Spain to engage more aggressively with law enforcement authorities in key Latin American countries. Spain has recently taken steps in this direction. Within the last two months, the Director General of Spain's Police and Civil Guard traveled to Colombia to sign a cooperation agreement to fight drug trafficking and its related crimes through increased personnel and information exchange.

¶18. (SBU) Spain, second only to the U.S. in terms of investment, is actively engaged in Latin America. In addition to cultural and historical ties, Spain shares our interest a strong democratic and free market institutions in the region. Regarding Cuba, we share with Spain the objective of a peaceful transition to democracy but differ markedly on how to achieve this end. Spain's socialist government has opted for engagement, claiming it can encourage regime elements who want change. We take every opportunity to remind the Spanish that the Cuban regime is only interested in survival and that the Cuban dissidents

need and deserve the active and visible support of democracies everywhere.

¶19. (SBU) Spanish military cooperation matters. The bases of Rota and Moron are strategic hubs, midway between the U.S. and Afghanistan and Iraq. U.S. planes and ships account for around 5,000 flights and 250 port calls a year in Spain. The Spanish military is pro-U.S. and pro-NATO. We need to keep this relationship strong. Spain has nearly 800 personnel in Afghanistan and runs a provincial reconstruction team in Badghis province. Spain has contributed some 150 million Euros in Afghan reconstruction funds. Planning is underway to allow the Spanish to train and equip an Afghan Army company, which we hope will be a prelude to the training and equipment of a full battalion. Spain has nearly 1,100 troops with UNIFIL in Lebanon and about 700 in Kosovo. On Iraq, Spain has contributed \$22 million to the Basrah Children's Hospital and a further \$28 million in development funding for Iraq. Spain's total commitment to the Iraq Compact was USD 225 million. The Spanish Foreign Ministry says that Spain has disbursed all of its pledge except for its concessional loans, which are pending completion of project proposals. It also has provided through UNHCR over 800,000 euros for refugee and displaced persons relief in Jordan and Syria. Spain is an active participant in EU-Iraq negotiations on an economic cooperation agreement that would provide additional funding for training and development activities.

Security Assessment

¶20. (U) In general, Spain is safe. However, Madrid, Barcelona and other large cities in Spain attract a large number of criminals and pickpockets and frequent incidents of crime of opportunity against the unwary do occur. It is best to carry only essential items including a photocopy of your passport's photo page. Visitors can protect themselves against crime by being street-smart, alert and aware of their surroundings. Travelers are encouraged to review the most recent Worldwide Caution issued by the Department of State. As the Department of State continues to develop information on any potential security threats to Americans overseas, it shares credible threat information through its Consular Information Program documents, available on the Internet at <http://travel.state.gov>. Additional information regarding safety and security in Spain is available on the U.S. Department of State's website (www.embusa.es).
LLORENS